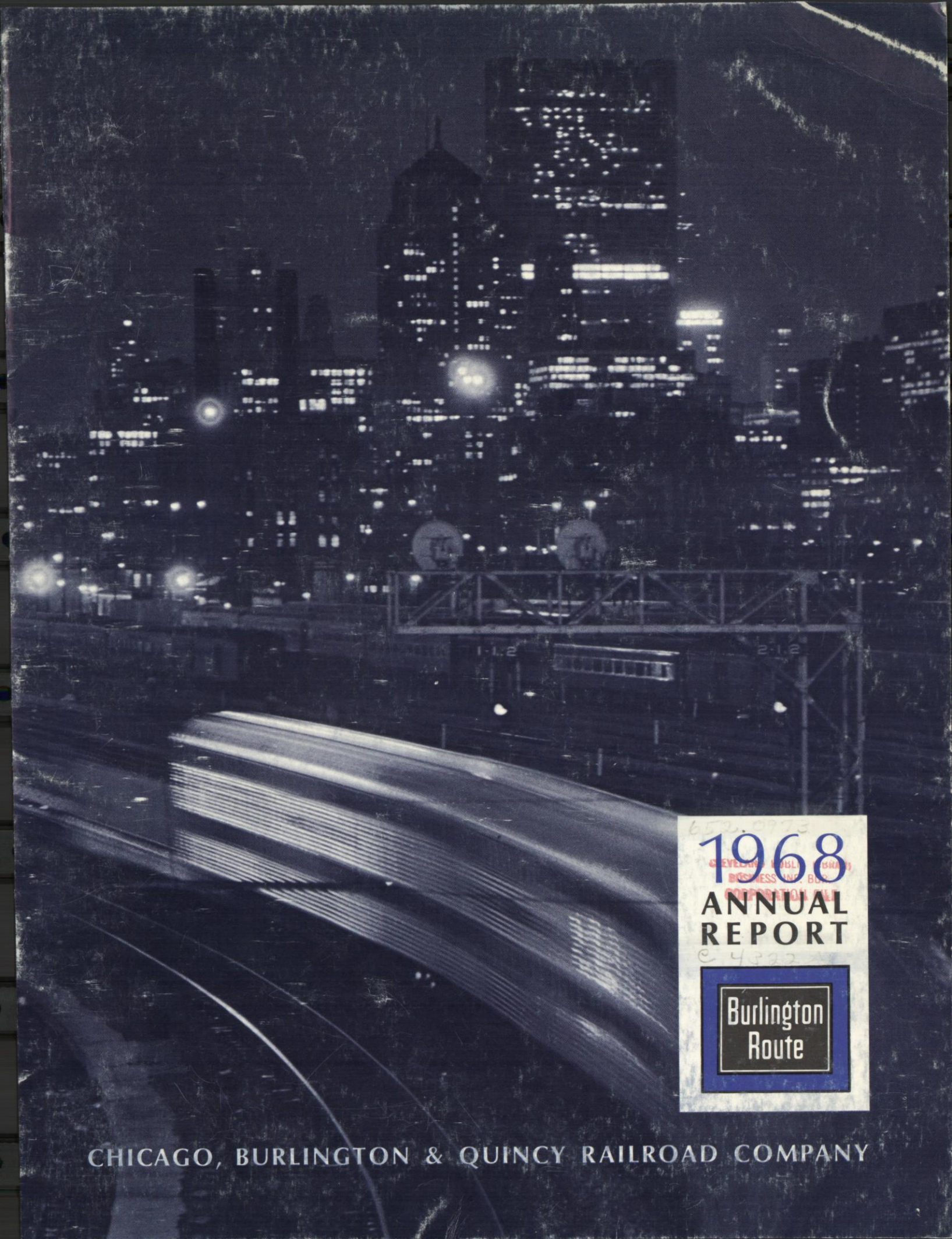




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1968
ANNUAL
REPORT

Burlington
Route

CHICAGO, BURLINGTON & QUINCY RAILROAD COMPANY

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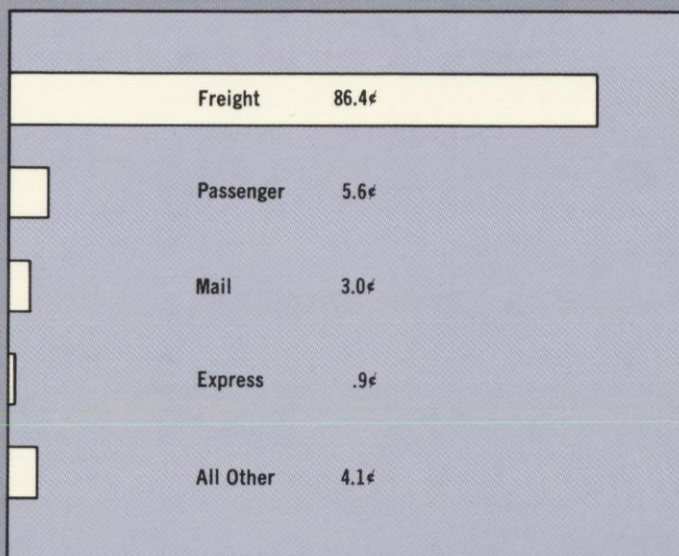
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Principal Office

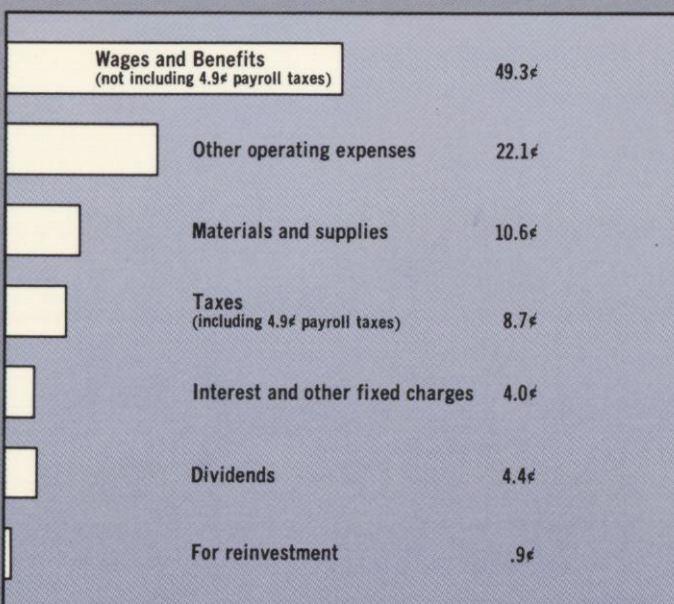
Burlington Building
547 West Jackson Boulevard
Chicago, Illinois 60606

A supplementary report containing additional operating and financial statistics may be obtained upon request to the Secretary of the Company at 547 West Jackson Boulevard, Chicago, Illinois 60606.

Sources of the 1968 Income Dollar



Disposition of the 1968 Income Dollar



HIGHLIGHTS

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	1968	1967	Increase or (Decrease)
*CONSOLIDATED OPERATIONS			
Operating Revenues	\$335,403,000	\$327,740,000	\$ 7,663,000
Operating Expenses	\$267,820,000	\$268,579,000	\$ (759,000)
Taxes—Other Than Income	\$ 29,328,000	\$ 28,184,000	\$ 1,144,000
Income Taxes	\$ (106,000)	\$ 250,000	\$ (356,000)
Income Available for Fixed Charges	\$ 29,937,000	\$ 25,142,000	\$ 4,795,000
Fixed Charges	\$ 13,336,000	\$ 11,991,000	\$ 1,345,000
Net Income (Page 15)	\$ 16,217,000	\$ 12,594,000	\$ 3,623,000
C. B. & Q. R. R. CO. OPERATIONS			
Operating Revenues	\$284,751,650	\$277,084,008	\$ 7,667,642
Operating Expenses	\$227,961,597	\$225,552,194	\$ 2,409,403
Operating Ratio	80.06	81.40	(1.34)
Total Taxes (Page 14)	\$ 25,009,602	\$ 23,900,365	\$ 1,109,237
Income Available for Fixed Charges	\$ 27,107,259	\$ 24,926,442	\$ 2,180,817
Fixed Charges	\$ 11,806,790	\$ 10,675,894	\$ 1,130,896
Times Fixed Charges Earned	2.30	2.33	(.03)
Net Income—ICC Basis (Page 20)	\$ 15,300,469	\$ 14,250,548	\$ 1,049,921
Dividends Paid	\$ 12,812,902	\$ 12,812,902	\$ —
Averages per Share of Stock:			
Taxes	\$ 14.64	\$ 13.99	\$.65
Net Income—ICC Basis	\$ 8.96	\$ 8.34	\$.62
Dividends Paid	\$ 7.50	\$ 7.50	\$ —
Average Number of Employees	16,938	17,886	(948)
Total Wages	\$136,327,507	\$136,974,620	\$ (647,113)
Tons—Revenue Freight	59,411,393	59,673,881	(262,488)
Ton Miles—Rev. Frt. (000)	21,675,474	19,564,522	2,110,952
Avg. Rev. per Loaded Car Mile—Rev. Frt.	\$.45185	\$.46399	\$ (.01214)
Net Ton Miles (000)	21,929,366	19,915,374	2,013,992
Train Miles—Freight	11,677,632	11,951,701	(274,069)
Ton Miles per Train Mile	1,877.89	1,666.32	211.57
Avg. Miles Hauled—Rev. Frt.	364.84	327.86	36.98
Gross Ton Miles per Train Hour	84,859	74,861	9,998
Miles of Road Operated	8,538.54	8,538.09	.45
Passengers Carried—Revenue	10,719,598	11,035,471	(315,873)
Passenger Miles—Revenue	579,284,557	723,324,334	(144,039,777)
Avg. Miles Carried	54.04	65.55	(11.51)
Avg. Pass. Miles per Car Mile	20.93	21.54	(.61)
Train Miles—Passenger	5,458,549	6,967,151	(1,508,602)

*Including subsidiary companies listed on page 22.
Annual reports of these companies are on file in the office of the Secretary.



To Our Shareholders:

In the year 1968 the operating revenues, both on a consolidated basis and for the railroad alone, reached all-time highs. Consolidated operating revenues increased to \$335.4 million from \$327.7 million the year before.

For the Burlington alone, operating revenues achieved a new high of \$284.7 million compared to \$277 million in 1967, and this was done despite a decrease of nearly 30% in grain traffic, historically a major traffic and revenue producing commodity.

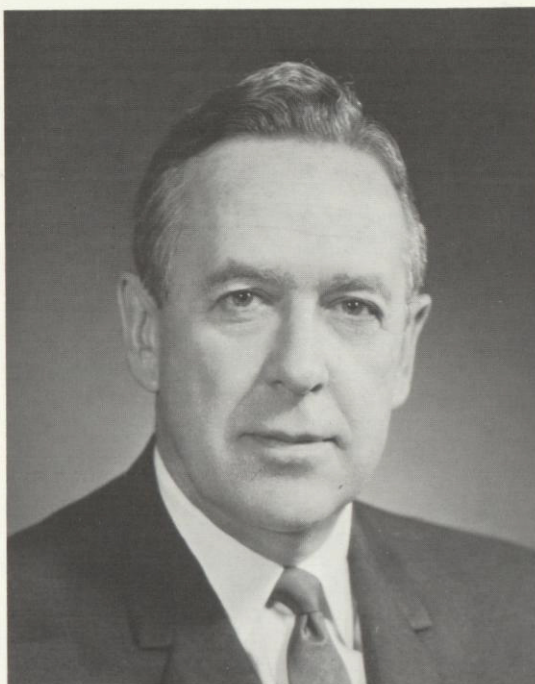
Labor costs and related taxes and fringe benefits continued their upward trend in 1968, contributing to the cost squeeze experienced by most segments of the country's economy and certainly by the nation's railroads.

On the Burlington alone, such costs added approximately \$5.4 million to expenses in 1968 over comparable figures in 1967 due to industry-wide pattern settlements. Even so, there was improvement in net income on both the consolidated basis and for the railroad. Consolidated net income was \$16,217,000 compared to \$12,594,000 in 1967, and for the railroad it was \$15,300,469 compared to \$14,250,548 in 1967.

The higher costs have, of course, intensified the continuous search for improved management techniques and more efficient operation in all departments, and the year-end results demonstrate that management has been able to largely offset the increased wage costs.

Similarly, the nearly 30% decline in grain traffic and its important revenue contribution was more than offset by freight rate increases and substantial gains in such traffic categories as automobiles, manufactured products, lumber and forwarder freight.

Incidentally, it is now estimated that in 1969 there will be a gain of about 5%, or \$10 million in freight revenues, for the railroad alone, though it is also estimated that

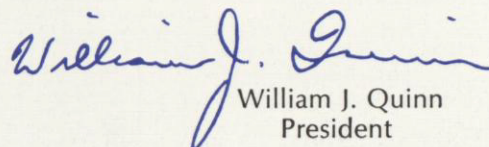


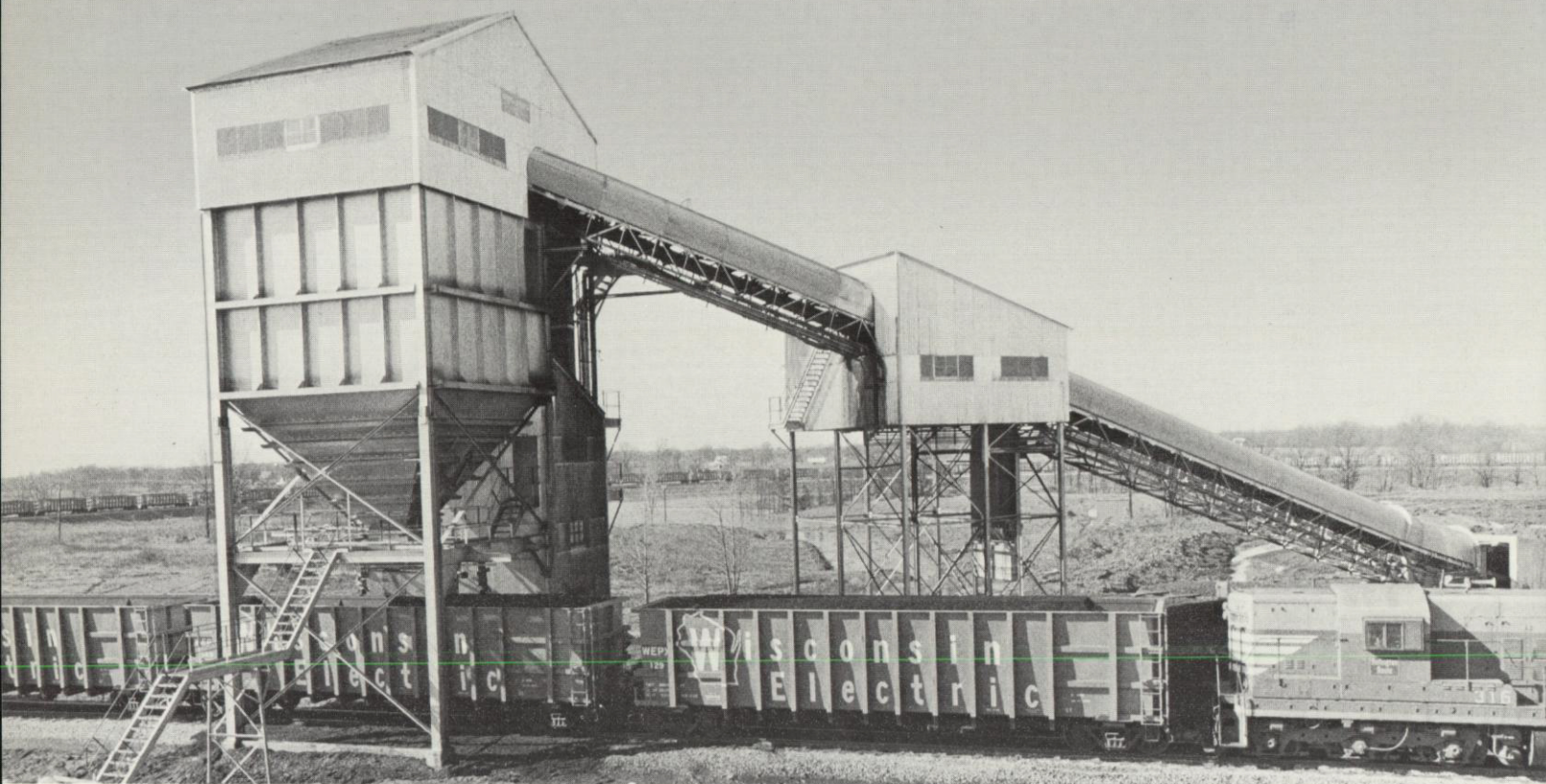
wage and related costs will increase \$6.3 million.

In the report to shareholders last year, the hope was expressed that the merger of the company with the Great Northern and Northern Pacific, and the lease of the Spokane, Portland & Seattle Railway, would be consummated in 1968. That hope was almost fulfilled, but consummation was again postponed under circumstances described under the "Merger" section elsewhere in this report. While this has been a disappointing development, the planning for the eventual merger and its successful implementation continues.

In 1969, Burlington management has before it two primary goals which it is pursuing simultaneously—(1) to operate as efficiently as possible while awaiting merger, and (2) to be prepared for smooth and successful transition to the merged railroad operation when Merger Day arrives.

The Board of Directors and I wish to express our deep appreciation to present and past officers and employees for their great contributions to the Burlington during the past years.


William J. Quinn
President



Unit coal train destined for Wisconsin Electric plant loads at Old Ben mine in southern Illinois.



Container and Piggyback traffic is growing. These units are speeding through Nebraska, enroute to Chicago and eastern cities.

FREIGHT TRAFFIC

Freight revenues reached an all-time high in 1968 of \$247.2 million. Continuing the trend of the last several years, the ratio of freight revenues to overall Company revenues increased from 84.4% in 1967 to 86.8% in 1968.

Average ton-mile earnings turned down in 1968 to 1.141¢, from 1.195¢ the previous year, but the average number of tons per train mile rose from 1,666 in 1967 to 1,878. Service improvements increased the average miles per freight car per day by about 15%. Revenue ton-miles rose to 21.67 billion from 19.56 billion in 1967.

The gain in freight revenues was achieved despite a decline of more than 37,000 cars of grain; historically one of the Company's principal commodities. This somewhat remarkable result was attributable to the success of continuous efforts to broaden the railroad's traffic base and lessen its dependency upon any one commodity, and to freight rate increases. Shipments of automobiles, miscellaneous-manufactures, lumber and coal were strong, and helped offset the decline in grain shipments. A weak price structure was responsible for the fact that large quantities of grain that normally would have

moved to market or ports remained in storage. It is expected that grain shipments will increase by about 10% in 1969 while overall freight revenues are expected to rise about \$10 million.

Pricing-Marketing

Unit coal trains, comprised of shipper-owned cars, began operating late in the year between mines in southern Illinois and the Wisconsin Electric Power Company plant south of Milwaukee, and are expected to produce \$900,000 in annual revenues.

Reduced rates made possible unit train shipments of potash from Northgate, North Dakota, to Mendota and Beardstown, Illinois, in conjunction with Great Northern Railway.

The "Land Bridge" concept of handling international traffic has been given extensive study, and we have joined with lines serving East and West Coast ports to establish charges for transcontinental containerized freight moving between the ports.

New rates were established for livestock moving in giant shipper-owned cars.

Studies are underway of the move-

ment of refuse from Chicago and other large cities to distant areas where it can be used for land fill purposes. This subject is attracting more and more attention and is assuming greater importance in many of the metropolitan areas of the country.

New uses for computer-provided information continue to be developed for the use of Traffic Department personnel. Traffic salesmen throughout the country are now furnished data, including the total freight charges of each shipment originating in their territory, that was not before possible as a practical matter. This has increased the productive potential of the sales force.

A new control system—Service Performance Analysis—seeks to obtain better utilization of the Burlington's fleet of specialized cars as distinguished from the railroad's general purpose fleet. Responsibility for the optimum use of these specialized and expensive cars is placed upon the off-line traffic office in the territory where the car is destined. Aided by computer-activated teletype reports from the Chicago headquarters, district sales offices have been able to materially increase utilization of these cars.



Latest SD-45 diesels, shown at Electro-Motive plant, LaGrange, Ill., are painted new green, white and black colors.

Strengthening the right of way continued in 1968. Heavy rock was installed along Montana's Little Big Horn River, near Custer Battlefield, to prevent water damage.



OPERATIONS

Again in 1968, the railroad continued a long established program of actively modernizing and upgrading its physical plant. Additional 136-lb. welded rail was installed on main lines. A one-spot freight car repair center was erected in the automated freight yard under construction at North Kansas City, and a refrigerator car heavy repair facility was added to the Company's main car shops (Havelock) at Lincoln. Installed at the new diesel service center at Lincoln was a unique locomotive washer designed by Company engineers. Here locomotives are thoroughly cleaned faster and more cheaply than automobiles in an automatic car wash.

The locomotive fleet was further modernized by the addition of 25 high speed freight diesels, and 1,194 new freight cars of specialized design were added to the Company's fleet of approximately 43,000 cars. Additionally, 1,349 freight cars were given heavy repairs.

On the Chicago-Galesburg main line, an additional 22 miles of centralized traffic control were added and mechanical interlocking in this territory was retired. Much of the signaling for the automated classification yard at North Kansas City (to be completed in 1969) was installed, as were almost 8 miles of

centralized traffic control leading to the yard. In the important Galesburg classification yard, 12 electronic car presence detectors were installed. These devices identify cars of different lengths for the more efficient operation of the automatic hump yard. Continuing a program of cooperation with governmental authorities, more than 30 protective devices were placed at highway crossings with high density automotive traffic.

Efforts to achieve safest-possible operations helped reduce both injuries and payments for personal injuries. (An even more intensified safety and rules observance program will be carried out in 1969.)

The ratio of unserviceable freight cars

was reduced, and computers are being programmed to provide an inventory of bad order cars that will include repair cost estimates, thus aiding the planning of the officers charged with maintaining equipment.

Track maintenance has been utilizing updated types of mechanized equipment, and computers are to be employed to program the performance of work equipment. The engineering department also is beginning to utilize the capabilities of computers as an aid to planning design surfaces. Industrial engineering played a significant role in establishing car performance standards that helped to increase both freight train performance and freight car utilization in 1968.

Capital Expenditures

	<u>Gross</u>	<u>Retirements</u>	<u>Net</u>
Road	\$ 7,193,542	\$ 6,397,356	\$ 796,186
Equipment	25,875,281	24,459,071	1,416,210
Construction work in progress	18,937	—	18,937
Total	\$33,087,760	\$30,856,427	\$ 2,231,333

New Arco Chemical plant of Atlantic-Richfield Company, at Ft. Madison, Iowa, became major shipper in first months of operation.



INDUSTRIAL DEVELOPMENT AND REAL ESTATE

Attracting new industries to track-side locations, and often providing land for these industries, is an activity accorded top priority by the Company.

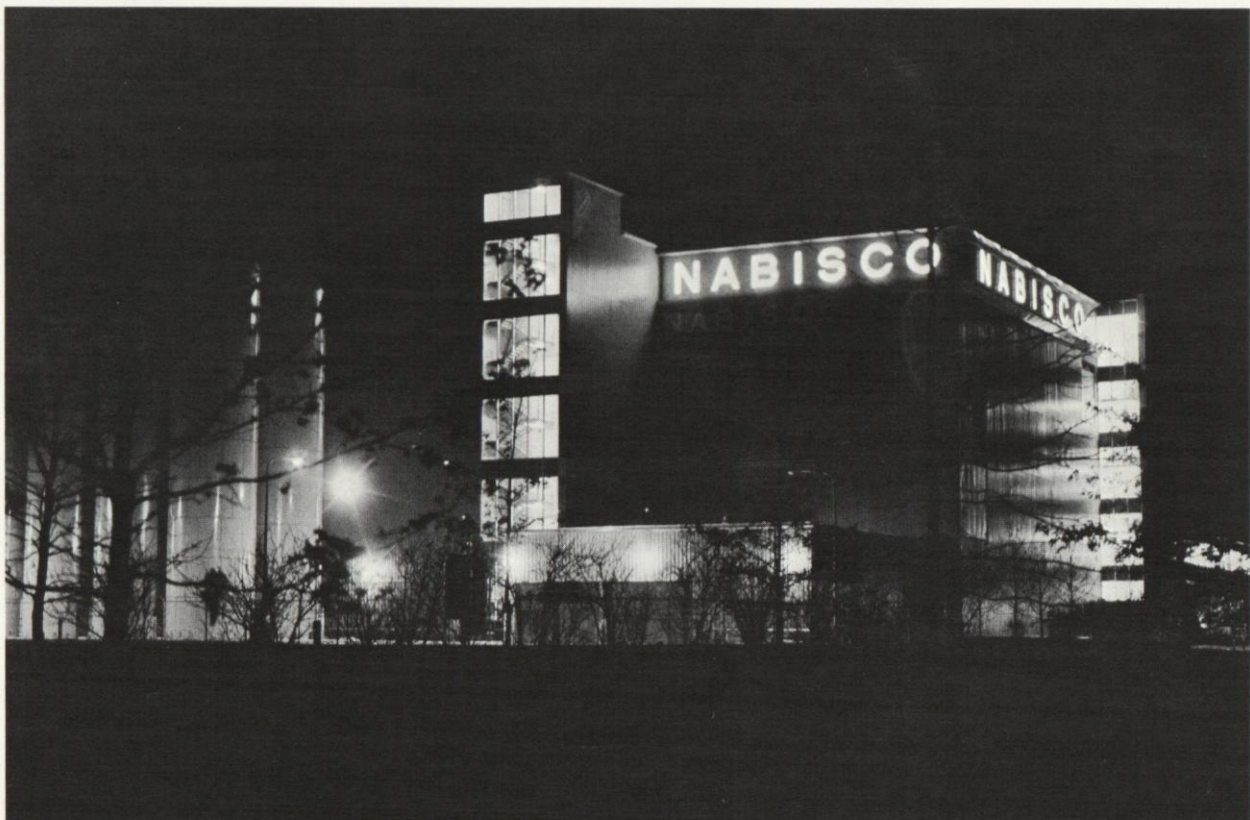
During the year, the department helped to locate industries expected to eventually produce \$6.8 million in traffic revenues annually. In addition, the issuance of 699 industrial leases and 373 temporary permits should produce substantial other traffic, not included in that figure.

A number of major plants went on stream during the year. Outstanding were the largest soybean mill in the world, at Lincoln, Nebraska, that is

expected to ship 12,000 cars yearly; a giant petrochemical fertilizer plant at Ft. Madison, Iowa; a modern cereals plant in the Naperville, Illinois Industrial Park; a livestock feed plant at St. Joseph, Mo., and a \$2 million gourmet food products plant at Lincoln, Nebraska.

An outside real estate consulting firm was retained to survey and appraise company properties not needed for operating or industrial development purposes. At the conclusion of the survey the department commenced an intensive real estate sales program, which is continuing into 1969.

Night view of striking Nabisco cereals plant in new Naperville Industrial Park.





Patronage and revenues of Chicago suburban service increased. Trains of bi-level, stainless steel cars operate over three-track line signaled for operation in both directions. Locomotives are equipped with radio and cab signals.



*COMMUTER NEWS
publication is
distributed aboard
trains to provide
effective Company-patron
communications.*

PASSENGER TRAFFIC

As it has since launching the passenger train renaissance in 1934, the Burlington in 1968 followed the philosophy that produced one of the most successful and respected passenger operations:

It offered some of the finest Vista Dome trains in the nation—It advertised and promoted its service—It sought to eliminate trains little used by the public—It reduced operating costs wherever possible—And it tried to keep its fare structure consistent with modern conditions.

Even so, and in a continuation of a pattern experienced not only on the Burlington, but throughout the railroad industry as well, passenger revenues recorded their sharpest drop since 1947, declining to \$16.1 million, from \$18.1 million in 1967. Passenger miles decreased on through trains, but increased in Chicago suburban service for the third successive year. Mail and express revenues recorded their sharpest year-to-year drop since 1931, declining to \$11.4 million, from \$14.4 million in 1967.

During the year, a large number of

tours were offered at off season times to attract patronage to regularly scheduled trains when it was most needed. More than 5,000 Boy Scouts were transported between Chicago and Denver, enroute to Philmont Ranch camp in southern Colorado.

Coach, first class and Chicago commuter fares were raised 10%, and special California Zephyr charges of \$20 for first class passengers and \$10 for coach passengers traveling between Chicago and San Francisco were imposed in an effort to check the famous train's rapidly rising losses.

Extensive advertising was conducted on behalf of the Denver Zephyr and California Zephyr. One of the radio commercials for the California Zephyr has been selected by judges of the 9th Annual Broadcasting Awards as one of the 10 best of 3500 entries from the U.S. and 39 other countries during 1968.

Train Discontinuance

Trains discontinued during the year, because of lack of patronage and resulting losses were:

Number: 22 Omaha—Kansas City
23 Kansas City—Omaha
35 Quincy—Kansas City
36 Kansas City—Quincy

Additionally, Trains 41 and 42 between Omaha and Billings were authorized to be discontinued by the Interstate Commerce Commission after hearings during the year, but discontinuance was delayed pending the outcome of an appeal by certain Wyoming municipalities to the Federal Court at Cheyenne, Wyoming.

Commuter Service

Chicago to Aurora commuter traffic continued to increase. Revenues rose to \$5,681,950 from \$5,212,585 in 1967. The number of passengers carried increased to 9,582,644, from 9,428,147 in 1967, while suburban service passenger miles rose to 164.9 million, from 161.8 million in 1967.

COMMUTER NEWS, a monthly four-page publication for passengers, was initiated to help maintain good communications between the railroad and its patrons.

We're moving 40,166 freight cars down there. We know where each one is. Right now.

Real "real time" car tracing is here. Want to know where any car is on the Burlington route? Ask our pair of IBM 360 computers. Get an instant answer.

Because our computers tell it like it really is. Where the car is right now. Not where it was half a day ago.

You can talk directly to the computer by Telex or TWX. Our sales representative has the number to call.

Or, if you'd rather, call him or Burlington's Chicago Service Bureau (312-922-2345) to do the asking.

Real "real time" car tracing keeps you on top of things. It's just one more extra you get from the railroad that revolutionized its distribution system.

Even if it means coming up with out-of-this-world ideas in communications.

Burlington

We run a revolution not a railroad.



PHOTO COURTESY OF NASA, WASHINGTON, D.C.

New car tracing service was advertised and publicized. This advertisement in New York TIMES had top readership score in survey conducted by national research organization.

GENERAL

MANAGEMENT INFORMATION SERVICES

In March 1968, Burlington introduced and made available to shippers real time tracing of freight cars moving over our system. (A real time information system has car movement data transmitted directly to a computer from major freight yards.) Inquiries are given immediate response whether made by telephone, TWX or Telex. Shippers soon demonstrated their need and appreciation for the new service, and by year's end up to 5,000 daily requests for car information were being received.

The computer room at Chicago was enlarged to accommodate a second Model 360/50 computer. In addition to keeping track of 45,000 freight car and locomotive movements at any given time, the computers handle payroll processing, car accounting, and revenue and expense reports. A third computer handles overflow work.

The availability of car movement data on a real time basis permitted the development of a terminal exception report in which the elapsed time of a car moving through a terminal in excess of a standard is identified and automatic-

ally reported to operating officers for attention. These and other programmed applications have enabled Burlington to make substantial improvements in the utilization of freight cars. Average miles per car per day in 1968, for example, increased 10.8%.

TRAINING

Fifty-three in-company seminars were completed during the year. Expanded subjects included principles of modern management, application techniques, effective foremanship, cost reduction and profit improvement.

Courses in advanced sales management and transportation selling were given to all sales managers and salesmen.

Other seminars dealt with critical path methods for engineering projects and marketing, and progress evaluation and review. Many courses approved under the tuition refund plan were completed and officers continued to attend advanced management programs at leading universities.

MERGER

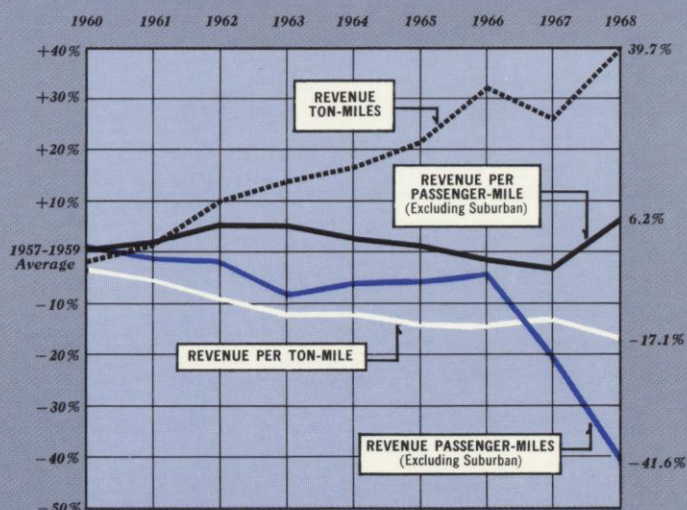
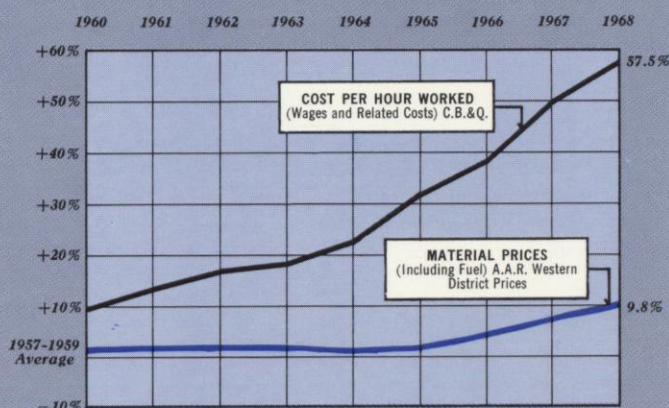
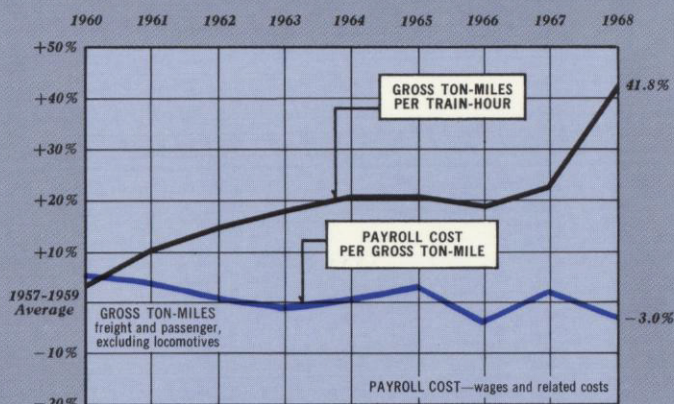
It was reported here a year ago that the Interstate Commerce Commission, on November 30, 1967, approved the proposed merger of Burlington, Great

Northern and Northern Pacific, and the lease of the Spokane, Portland and Seattle Railway by the new company.

On April 19, 1968, the Commission, upon further consideration, again approved the merger. On May 9, 1968, one day prior to the announced date for consummation of the merger, the Department of Justice brought suit, in the Federal Court at Washington, D.C., to set aside the Commission's approval order. That Court denied the Department's request for a temporary restraining order, but, early the next day, the Chief Justice of the Supreme Court issued a stay order, and the Department of Justice complaint, with other similar complaints, was heard by a Three-Judge District Court on July 9, 1968.

On November 20, 1968, the Three-Judge Court issued a unanimous opinion which upheld, in all respects, the action of the Commission in approving the merger. However, the Department of Justice again blocked consummation, by filing its appeal in the United States Supreme Court. The merging lines asked the Supreme Court to summarily affirm the decision of the Three-Judge District Court, but this motion was denied February 24, 1969. The appeal now awaits argument before, and decision by, the United States Supreme Court.

Trends



LABOR

Existing hospitalization plans were consolidated into one that covers all represented employees. Wage increases were negotiated with 2 operating and 11 non-operating unions which included more liberal vacation provisions. These agreements became effective on varying dates in 1968 and call for automatic additional increases in 1969. The result was that wage and related fringe benefit costs increased \$5.4 million in 1968 over the comparable 1967 figures.

DIVIDENDS

A dividend (\$7.50 per share) was paid in 1968, the 107th consecutive year that dividends have been paid.

TAXES

During the year, the Chicago, Burlington & Quincy incurred a tax liability, exclusive of income taxes, of approximately \$70,000 per day. This means that the Company had to carry—every day of the year—the equivalent of 6.1 million tons of freight one mile to discharge its tax obligations.

In 1968 taxes increased \$1,109,237 compared with 1967:

		Increase (Decrease)
Federal Railroad Retirement Taxes	\$10,967,147	\$ 682,703
Federal Unemployment Taxes	3,136,777	(215,412)
State and Miscellaneous Taxes	11,008,573	544,592
Federal Income Taxes	(102,895)	97,354
Total in Income Account	\$25,009,602	\$1,109,237

The Missouri Supreme Court handed down an opinion adverse to the Company on the 1966 assessment, and an appeal to the United States Supreme Court was denied. Assessments for 1967-68 are being litigated and awaiting Missouri District Court action.

Chicago, Burlington & Quincy Railroad Company and Subsidiaries

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

	Year Ended December 31	
	1968	1967
	(In Thousands of Dollars)	
OPERATING REVENUE	<u>\$335,403</u>	<u>\$327,740</u>
COST AND EXPENSES:		
Operating expenses	267,820	268,579
Taxes, other than Federal income taxes	29,328	28,184
Rents — net	<u>14,103</u>	<u>12,604</u>
Total cost and expenses	<u>311,251</u>	<u>309,367</u>
Net operating income	24,152	18,373
OTHER INCOME:		
Dividends and interest	1,677	2,037
Other — net	<u>4,108</u>	<u>4,732</u>
Total income	<u>29,937</u>	<u>25,142</u>
INTEREST AND OTHER FIXED CHARGES	<u>13,336</u>	<u>11,991</u>
INCOME BEFORE FEDERAL INCOME TAXES AND MINORITY INTEREST	<u>16,601</u>	<u>13,151</u>
PROVISION FOR FEDERAL INCOME TAXES (CREDIT) (Notes 1 and 2)	(106)	250
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	<u>490</u>	<u>307</u>
Total	<u>384</u>	<u>557</u>
NET INCOME — In conformity with I.C.C. accounting rules (Note 1)	16,217	12,594
RETAINED EARNINGS:		
Balance at beginning of year	479,777	479,996
Total	<u>495,994</u>	<u>492,590</u>
Dividends paid — \$7.50 per share	<u>12,813</u>	<u>12,813</u>
Balance at end of year (Notes 1 and 3)	<u>\$483,181</u>	<u>\$479,777</u>

See accompanying Notes to Financial Statements (Page 18).

Chicago, Burlington & Quincy Railroad Company and Subsidiaries

BALANCE SHEET

ASSETS	December 31	
	1968	1967
(In Thousands of Dollars)		
CURRENT ASSETS:		
Cash and temporary cash investments.....	\$ 25,316	\$ 24,372
Accounts receivable	36,393	36,987
Material and supplies — at cost.....	16,698	20,431
Other current assets.....	876	1,497
Total current assets.....	<u>79,283</u>	<u>83,287</u>
INVESTMENTS AND SPECIAL FUNDS:		
Investments in and advances to affiliated companies — at cost	20,087	19,656
Other investments — at cost.....	12,767	10,959
Capital and other special funds.....	3,523	4,000
Total investments and special funds.....	<u>36,377</u>	<u>34,615</u>
PROPERTIES (Note 3):		
Transportation:		
Land	45,005	44,636
Other road properties	637,004	638,108
Equipment	583,804	586,216
Non-operating properties — principally land	20,523	19,927
Total	<u>1,286,336</u>	<u>1,288,887</u>
Less accumulated depreciation and amortization	<u>381,446</u>	<u>390,966</u>
Properties — net	<u>904,890</u>	<u>897,921</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>12,029</u>	<u>17,960</u>
TOTAL	<u><u>\$1,032,579</u></u>	<u><u>\$1,033,783</u></u>

See accompanying Notes to Financial Statements (Page 18).

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31

1968

1967

(In Thousands of Dollars)

CURRENT LIABILITIES:

Accounts payable	\$ 35,543	\$ 37,938
Accrued interest and taxes.....	14,187	15,146
Other current liabilities	5,364	4,145
Current portion of long-term debt.....	20,735	19,868
Total current liabilities	<u>75,829</u>	<u>77,097</u>

LONG-TERM DEBT (Page 19)	<u>276,969</u>	<u>282,954</u>
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OTHER LIABILITIES:

Pension, casualty, and other reserves.....	5,862	6,219
Other liabilities and deferred credits.....	5,342	2,440
Total other liabilities.....	<u>11,204</u>	<u>8,659</u>

MINORITY INTEREST IN SUBSIDIARIES.....	<u>14,557</u>	<u>14,457</u>
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STOCKHOLDERS' EQUITY:

Common stock, \$100 par value, authorized and outstanding — 1,708,391 shares	170,839	170,839
Retained earnings (Notes 1 and 3).....	483,181	479,777
Total stockholders' equity	<u>654,020</u>	<u>650,616</u>

TOTAL	<u>\$1,032,579</u>	<u>\$1,033,783</u>
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Chicago, Burlington & Quincy Railroad Company

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION AND ACCOUNTING

The consolidated financial statements include the Chicago, Burlington & Quincy Railroad Company and all of its subsidiaries.

The Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission varies from generally accepted accounting principles in that no accounting recognition is given to the possible effect on income taxes in future years for current reductions of income taxes resulting from deductions for amortization and depreciation of property for income tax purposes in excess of provisions recorded in the accounts. Net income in conformity with generally accepted accounting principles would be as follows:

	1968	1967
Net income— in conformity with I.C.C. accounting rules	\$16,217,000	\$12,594,000
Estimated reduction to provide for deferred Federal income taxes ..	2,700,000	2,300,000
Net income— in conformity with generally accepted accounting principles	\$13,517,000	\$10,294,000
Net income per share of common stock: In conformity with I.C.C. accounting rules	\$9.49	\$7.37
In conformity with generally accepted accounting principles ...	\$7.91	\$6.03

The estimated reduction to provide for deferred Federal income taxes includes available investment tax credits of \$4,700,000 and \$3,300,000 in 1968 and 1967, respectively. The cumulative amount of such estimated reduction of income taxes included in consolidated retained earnings at December 31, 1968 was approximately \$83,700,000.

Financial statements of the parent company do not include \$42,178,000 of undistributed earnings of subsidiaries since dates of acquisition. Net income of the parent company would be \$917,000 greater in 1968 and \$1,657,000 less in 1967 if recognition were given to the net increase and decrease, respectively, in the equity of subsidiaries.

2. INVESTMENT TAX CREDITS

During 1968 and 1967, investment tax credits arising from acquisitions of equipment and certain other property were approximately \$2,530,000 and \$3,298,000, respectively, of which approximately \$272,000 and \$60,000, respectively, were utilized to reduce the provision for Federal income taxes. At December 31, 1968, unused investment credit carryovers of approximately \$14,400,000 were available to offset Federal income taxes of future years through 1975.

3. PROPERTIES

Properties are stated at estimated original cost determined on the basis of Interstate Commerce Commission physical inventories of properties conducted prior to 1920, plus cost of additions and betterments and less retirements since that date. The amount by which the book cost of The Colorado and Southern Railway Company and the Fort Worth and Denver Railway Company properties exceeds the cost determined on the basis of the physical inventory is reflected in the property accounts of the individual companies and is being amortized against retained earnings over a period of years. For purposes of consolidation, properties and retained earnings are reduced by \$29,187,000 representing the unamortized portion of such excess cost.

Current costs of repairs and renewals of portions of track structure, including rails and ties, are charged to operating expense. Additions and betterments of track structure are capitalized. Provision for depreciation, on a straight-line basis, has been made as to other classes of transportation property. Charges to expense for repairs and re-

newals and for depreciation were \$14,643,000 and \$26,275,000, respectively, in 1968, and \$12,198,000 and \$25,858,000, respectively, in 1967.

4. PENSION PLANS

The Company and its subsidiaries have unfunded, non-contributory pension plans covering executive and other salaried employees which supplement benefits received under the Railroad Retirement Act. Pension benefits may be reduced or terminated at the discretion of the companies. At December 31, 1968, approximately \$16,500,000 would be necessary to fund present pensioner and widow benefits on an actuarial basis. The provision for pension costs charged to operating expenses was \$2,388,000 and \$2,384,000 in 1968 and 1967, respectively, which includes amortization of prior service costs of present pensioners and widows over a forty-year period and interest on prior service costs of present employees.

5. CONTINGENT LIABILITIES

At December 31, 1968, the Company and its subsidiaries were contingently liable (a) as guarantors, individually and jointly with other railroads, of certain obligations issued by affiliated companies amounting to approximately \$230,000,000, of which approximately \$22,000,000 was applicable to the Company and its subsidiaries, assuming no default by the other co-guarantors, and (b) for additional premiums of approximately \$5,300,000 under service interruption policies which insure the Company and other railroads holding similar policies against work stoppage losses.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

BOARD OF TRADE BUILDING
CHICAGO 60604

ACCOUNTANTS' OPINION

Chicago, Burlington & Quincy Railroad Company:

We have examined the consolidated balance sheet of Chicago, Burlington & Quincy Railroad Company and its subsidiaries for the year ended December 31, 1968 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for deferred income taxes as explained in Note 1, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 14, 1969

Haskins & Sells

Chicago, Burlington & Quincy Railroad Company and Subsidiaries

LONG-TERM DEBT

	December 31	
	1968	1967
	(In Thousands of Dollars)	
CHICAGO, BURLINGTON & QUINCY RAILROAD COMPANY:		
First and Refunding Mortgage bonds, 2 $\frac{7}{8}$ % to 4 $\frac{1}{2}$ %, due 1970 through 1998	\$137,481	\$140,644
Less bonds purchased and held in treasury.....	<u>30,706</u>	<u>31,038</u>
Total	106,775	109,606
Equipment trust agreements, 2 $\frac{5}{8}$ % to 5 $\frac{3}{4}$ %, due 1970 through 1982	91,485	104,675
Conditional purchase contracts, 4 $\frac{1}{2}$ % to 7 %, due 1973 through 1983.....	<u>50,935</u>	<u>37,957</u>
Total	<u>249,195</u>	<u>252,238</u>
SUBSIDIARIES:		
Fort Worth and Denver Railway Company—		
First Mortgage bonds, 4 $\frac{3}{8}$ %, due 1982.....	10,108	10,440
Conditional purchase contracts, 4% to 6 $\frac{1}{2}$ %, due 1970 through 1981.....	16,864	20,276
Other	<u>802</u>	—
Total	<u>27,774</u>	<u>30,716</u>
TOTAL LONG-TERM DEBT	\$276,969	\$282,954

At December 31, 1968, securities representing investments in subsidiaries and affiliated companies of \$2,390,000 were pledged under various mortgages.

All \$14,028,500 outstanding principal amount of Series A 4 $\frac{1}{2}$ % General Mortgage bonds of The Colorado and Southern Railway Company are owned by Fort Worth and Denver Railway Company and pledged under its First Mortgage.

Chicago, Burlington & Quincy Railroad Company

COMPARATIVE STATEMENT OF
INCOME AND RETAINED EARNINGS

	Years Ended December 31,	
	1968	1967
	(In Thousands of Dollars)	
RAILWAY OPERATING REVENUES:		
Freight	\$247,266	\$233,803
Passenger	16,158	18,125
Mail	8,773	11,525
Express	2,638	2,876
Other	9,917	10,755
Total	<u>284,752</u>	<u>277,084</u>
RAILWAY OPERATING EXPENSES:		
Maintenance of way and structures	37,593	32,993
Maintenance of equipment	49,483	50,688
Traffic	9,072	9,147
Transportation	115,484	115,814
Miscellaneous operations	2,279	2,809
General	14,051	14,101
Total	<u>227,962</u>	<u>225,552</u>
NET REVENUE FROM RAILWAY OPERATIONS	56,790	51,532
Taxes other than Federal Income	25,112	24,101
Rentals for equipment and facilities, Net Dr.	10,112	8,875
NET RAILWAY OPERATING INCOME	21,566	18,556
OTHER INCOME:		
Dividends and Interest from Subsidiaries	1,170	1,775
Other	4,886	4,830
Total	<u>27,622</u>	<u>25,161</u>
OTHER DEDUCTIONS:		
Interest and fixed charges	11,808	10,676
Miscellaneous	616	435
Total	<u>12,424</u>	<u>11,111</u>
Net Income Before Income Taxes	15,198	14,050
Provision for Federal Income Taxes (Notes 1 and 2)	(102)	(200)
NET INCOME—In conformity with I.C.C. accounting rules (Note 1)	15,300	14,250
RETAINED EARNINGS:		
Balance at beginning of year	438,515	437,078
Total	453,815	451,328
Dividends—\$7.50 per share	12,813	12,813
Balance at end of year (Note 1)	<u>\$441,002</u>	<u>\$438,515</u>

See accompanying Notes to Financial Statements (Page 18).

Chicago, Burlington & Quincy Railroad Company

BALANCE SHEET

Assets	December 31	
	1968	1967
(In Thousands of Dollars)		
CURRENT ASSETS:		
Cash and temporary cash investments	\$ 20,835	\$ 18,695
Accounts receivable	33,325	36,876
Material and supplies—at cost	15,127	18,891
Other current assets	246	858
Total currents assets	<u>69,533</u>	<u>75,320</u>
INVESTMENTS AND SPECIAL FUNDS:		
Investments in and advances to Subsidiary and Affiliated Companies—at cost. . .	56,094	48,692
Other investments—at cost	278	2,516
Capital and other special funds	3,468	7,080
Total investments and special funds	<u>59,840</u>	<u>58,288</u>
PROPERTIES (NOTE 3):		
Transportation:		
Land	40,940	41,076
Other road properties	561,882	560,931
Equipment	520,134	518,718
Non-operating properties principally land	17,357	16,508
Total	<u>1,140,313</u>	<u>1,137,233</u>
Less—accumulated depreciation and amortization	341,204	344,355
Properties—Net	<u>799,109</u>	<u>792,878</u>
OTHER ASSETS AND DEFERRED CHARGES	9,428	8,723
Total	<u>\$ 937,910</u>	<u>\$ 935,209</u>
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Accounts payable	\$ 31,746	\$ 32,195
Accrued interest and taxes	12,878	12,984
Other current liabilities	4,338	3,537
Current portion of long-term debt	17,862	16,950
Total current liabilities	<u>66,824</u>	<u>65,666</u>
LONG-TERM DEBT (Page 19)	<u>249,195</u>	<u>252,238</u>
OTHER LIABILITIES:		
Pension, casualty, and other reserves	5,555	5,977
Other liabilities and deferred credits	4,495	1,974
Total other liabilities	<u>10,050</u>	<u>7,951</u>
STOCKHOLDERS' EQUITY:		
Common stock, \$100 par value, authorized and outstanding—1,708,391 shares	170,839	170,839
Retained earnings (Note 1)	441,002	438,515
Total stockholders' equity	<u>611,841</u>	<u>609,354</u>
Total	<u>\$ 937,910</u>	<u>\$ 935,209</u>

See accompanying Notes to Financial Statements (Page 18).

Chicago, Burlington & Quincy Railroad Company

INVESTMENTS IN SUBSIDIARY AND AFFILIATED COMPANIES

December 31, 1968

		Investment in			Dividend and interest income 1968
	Percent of ownership	Stock	Bonds, notes and advances	Total	
SUBSIDIARY COMPANIES					
Burlington Equipment Co.....	100.00	\$ 5,000	\$ 500,000	\$ 505,000	\$ —
Burlington Truck Lines, Inc.....	100.00	1,155,267	3,811,061	4,966,328	—
Colorado and Southern Railway Co., The.....	74.72	22,172,276	—	22,172,276	369,510
St. Louis and Kansas City Land Co.	100.00	100,000	13,086,192	13,186,192	800,000
Winona Bridge Railway Co.....	66.67	300	—	300	—
Total		<u>\$23,432,843</u>	<u>\$17,397,253</u>	<u>\$40,830,096</u>	<u>\$ 1,169,510</u>
AFFILIATED COMPANIES					
Atchison Union Depot and Railroad Co.	37.50	\$ 27,000	\$ 7,665	\$ 34,665	\$ —
Belt Railway Co. of Chicago, The	8.33	240,000	374,251	614,251	19,389
Chicago Union Station Co.	25.00	—	6,361,352	6,361,352	—
Davenport, Rock Island and North Western Railway Co., The	50.00	1,748,182	1,240,076	2,988,258	—
Denver Market & Produce Terminal, Inc.*	20.00	—	3,000	3,000	—
Denver Union Terminal Railway Co., The.....	16.67	5,000	720,252	725,252	—
Illinois Northern Railway	25.00	—	50,000	50,000	—
Iowa Transfer Railway Co.	20.00	16,100	—	16,100	—
Kansas City Terminal Ry. Co.....	8.33	100,000	1,208,371	1,308,371	—
Keokuk Union Depot Co.	40.00	8,024	3,972	11,996	—
Minnesota Transfer Railway Co.	11.11	91,300	317,673	408,973	4,298
Paducah & Illinois Railroad Co.	33.33	3,333	1,587,324	1,590,657	71,929
Railway Express Agency Inc.	2.80	2,700	780,719	783,419	39,036
Saint Paul Union Depot Co., The	12.50	130,475	236,802	367,277	9,372
Terminal Railroad Association of St. Louis	6.25	—	—	—	—
Trailer Train Co.*	2.44	—	—	—	5,206
Total		<u>\$ 2,372,114</u>	<u>\$12,891,457</u>	<u>\$15,263,571</u>	<u>\$ 149,230</u>
Grand Total		<u>\$25,804,957</u>	<u>\$30,288,710</u>	<u>\$56,093,667</u>	<u>\$ 1,318,740</u>

*Chicago, Burlington & Quincy Railroad Company stock ownership in these companies and the Burlington Refrigerator Express Company, Illinois Terminal Railroad Company, Packers Car Line Company, and Pullman Company were sold to wholly-owned St. Louis and Kansas City Land Company during 1968.

CHANGES IN WORKING CAPITAL

January 1 to December 31, 1968

BALANCE AT BEGINNING OF YEAR

\$ 9,654,652

SOURCES OF WORKING CAPITAL

Net income\$15,300,469
Depreciation and other non-cash income items 23,050,316
Sale of property and other assets—net..... 8,813,607
Proceeds from equipment financing 19,726,385
Capital funds, deferred charges, etc..... 3,368,687

70,259,464

\$79,914,116

APPLICATION OF WORKING CAPITAL

Investments in affiliated companies\$ 7,401,831
Additions to operating and non-operating property 34,220,917
Reduction of long-term debt 22,769,473
Dividends paid on capital stock..... 12,812,902

77,205,123

BALANCE AT END OF YEAR.....

\$ 2,708,993

DIRECTORS AND OFFICERS

DIRECTORS

JOHN M. BUDD

President, Great Northern Railway Company, St. Paul, Minn.

CRIS DOBBINS

Chairman of the Board and President, Ideal Basic Industries, Inc., Denver, Colo.

R. W. DOWNING

Executive Vice President, Great Northern Railway Company, St. Paul, Minn.

GUY R. GLOVER

Retired Vice President — Traffic, Chicago, Burlington & Quincy Railroad Company, Chicago, Ill.

ROBERT S. INGERSOLL

Chairman of the Board and Chief Executive Officer, Borg-Warner Corporation, Chicago, Ill.

J. C. JAMES

Retired Executive Vice President and General Counsel, Chicago, Burlington & Quincy Railroad Company, Chicago, Ill.

ROBERT S. MACFARLANE

Chairman of the Board, Northern Pacific Railway Company, St. Paul, Minn.

ELDON MARTIN

Vice President and General Counsel, Chicago, Burlington & Quincy Railroad Company, Chicago, Ill.

W. W. McCALLUM

Chairman of the Board, John Morrell & Company and Vice Chairman of the Board and Chairman Executive Committee, AMK Corp.

L. W. MENK

President and Chief Executive Officer, Northern Pacific Railway Company, St. Paul, Minn.

WILLIAM J. QUINN

President, Chicago, Burlington & Quincy Railroad Company, Chicago, Ill.

EXECUTIVE COMMITTEE

WILLIAM J. QUINN, Chairman

JOHN M. BUDD

W. W. McCALLUM

J. C. JAMES

CRIS DOBBINS

L. W. MENK

OFFICERS

WILLIAM J. QUINN

President

ELDON MARTIN

Vice President and General Counsel

W. N. ERNZEN

Vice President and Comptroller

W. K. BUSH

Vice President—Management Information Services

I. C. ETHINGTON

Vice President—Operating Department

FRED E. DEINES

Vice President—Traffic Department

L. N. ASSELL

Secretary and Treasurer

R. A. WEINGARTNER

Assistant Secretary and Assistant Treasurer

FISCAL AGENTS

JOHN E. ADAMS

ROBERT W. LADDEN

40 Wall St., New York, N.Y.

TRANSFER AGENTS

THOMAS A. LINEHAN

JOHN J. MARTIN

40 Wall St., New York, N.Y.

The above were Directors
as of December 31, 1968.

CHANGES IN ORGANIZATION

MR. ROBERT S. INGERSOLL, Chairman of the Board and Chief Executive Officer, Borg-Warner Corporation, was elected a Director in place of MR. ROBERT D. STUART, JR., who resigned.

MR. GUY R. GLOVER, Vice President, Traffic, retired after more than 50 years of service.

OFFICERS ELECTED

FRED E. DEINES
Vice President-Traffic

OFFICERS APPOINTED

C. T. BRADSHAW
General Purchasing Agent

C. J. BRYAN
Assistant Chief Engineer-System

F. G. BUTCHER
Assistant Vice President (Western Region)

F. J. DILLON
Director, Management Information Services

J. R. GRIMES
General Manager, Freight Sales-Lines West

W. L. MALONE
General Manager, Freight Sales-Central Region

W. P. MURPHY
Director, Computer Systems and Planning

A. E. PEW, III
Director, Data Control

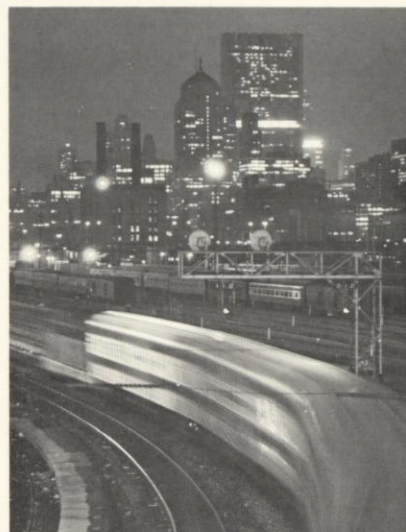
J. D. REZNER
Assistant Vice President-Sales

R. W. RICHARDS
Director of Purchases and Material

K. L. SCHRAMM
Regional Sales Manager (Central Region)

R. L. WATSON
Assistant to Vice President-Traffic

The photo on our cover captures the romance of railroading and of the city at night. Against a backdrop of Chicago's dynamic and growing Loop, an inbound commuter train proceeds toward Union Station.



1968 ANNUAL REPORT

Burlington
Route

